

MOSES KOTANE LOCAL MUNICIPALITY BUDGET REPORT 2010/11



**OPERATIONAL AND CAPITAL BUDGET FOR 2010/11 AND
ESTIMATES FOR 2011/12 TO 2012/13**

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1. MTREF BUDGET RESOLUTIONS

Recommended:

That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2010-2011; and the indicative allocations for the two projected outer years 2011-2013 and the related policies be approved, as set out in the following Tables, Schedules and Annexures to this report:

1.1 BUDGET RELATED TABLES

The Budget Related Tables are contained in **Annexure L**.

- a.** Budget Summary- **Table A1**
- b.** Budgeted Financial Performance (Revenue and Expenditure by Standard Classification)- **Table A2**
- c.** Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)- **Table A3**
- d.** Budgeted Financial Performance (Revenue by Source and Expenditure by Type)- **Table A4**
- e.** Multi-year Capital appropriations by municipal vote and standard classification and associated funding by source-Table- **Table A5**
- f.** Budgeted Financial Position as reflected in –**Table A6**
- g.** Cash Flow statement as reflected in -**Table A7**
- h.** Cash backed reserves and accumulated surplus reconciliation-**Table A8**
- i.** Asset management – **Table A9**
- j.** Basic Service Delivery Measurement- **Table A10**
- k.** Salaries and Benefits of Political Office Bearers, Councillors, Senior Managers and other Staff as reflected in supporting-**Table SA 22**

1.2 BUDGET RELATED POLICIES AND DOCUMENTATION

- l.** Revised Integrated Development Plan as set out in **Annexure A**
- m.** Property Rates policy as set out in **Annexure B**
- n.** Approval of Budgets as set out in **Annexure C**
- o.** Credit control and Debt collection as set out in **Annexure C**
- p.** Indigent Support as set out in **Annexure C**
- q.** Cash Management and Investments as set out in **Annexure C**
- r.** Fraud and Corruption Prevention as set out in **Annexure D**
- s.** Internal control and Procedures as set out in **Annexure E**
- t.** Fixed Asset Management Policy as set out in **Annexure F**
- u.** Draft Funding and Reserves Policy as set out in **Annexure G**
- v.** Draft SCM policy as set out in **Annexure H**
- w.** Notice of Proposed Property Rates as set out in **Annexure I**
- x.** Notice of Proposed Tariff Charges as set out in **Annexure J**

1.3 MOSES KOTANE DEVELOPMENT AGENCY

That the Budget of the Moses Kotane Development Agency be noted and accepted.

- 1.4** (a) That the Draft Service Delivery Implementation Plans/Business Plans with measurable performance targets be approved by the Mayor in June 2010;
- (b) That the Tariff charges reflected in schedule A be adopted for the budget year 2010/2011;
- (c) That the Property Rates reflected in schedule B be adopted for the budget year 2010/2011.
- (d) That unspent conditional grants allocations (National) as at the end of the 2009/2010 Financial year and appropriated or voted to 2010/2011 and future years not be committed to expenditure until approval thereof is obtained from National Treasury, per directive of Budget Circular 45 (2009) and Circular 51 (2010).
- (e) That notice be taken of National Treasury Circular 51 attached to this report.

2. OVERVIEW OF THE IDP/BUDGET PROCESS

This part of the report gives a brief overview of the 2010/11 IDP/Budget process undertaken and the key milestones that were achieved

- Council received a detailed timetable in August 2009 on the new IDP/Budget process for the 2010/11 cycle. See Time Schedule attached as **Annexure K**.
- The new process started with the first round of public consultation in September/October 2009 to obtain public input for the draft revised IDP.

Business planning

- Communications were circulated regarding further strategy for the completion of the 2010/11 budget

Public and stakeholders participation

- Managers were requested to identify new projects and or put forward existing projects on the IDP.
- Regular draft review sessions were held with all directors and managers from December 2009 to March 2010.
- This culminated in final strategic review sessions for tariffs and charges, budget related policies, and salary budget strategy.
- The draft budget was only tabled in council on 13 April 2010 as a result of leadership vacuum with the intervention in terms of Section 139 (1) (b) of the Constitution.
- The draft budget was advertised for comments in the press.
- The second public consultation process took place during April 2010 during which meetings the

Draft IDP and Budget and MTREF were fully discussed with ward committee members and the public.

- The final operational and capital reviews, tariffs reviews, policy reviews and a review of comments were held during April/May 2010 for the final compilation and completion of the 2010/11 budget.

3. OVERVIEW AND ALIGNMENT OF BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The IDP has been reviewed as required by the Municipal systems act and the MFMA. The final budget for 2010/11 was compiled in such a way to ensure sustainability of service delivery and financial viability of the Municipality. The **Service delivery and Budget implementation Plan** is finally aligned to the IDP and Budget.

The following supporting Tables reflect the reconciliations to the IDP:

SA 4- Reconciliation of IDP strategic objectives and budget (Operating Revenue)

SA5- Reconciliation of IDP strategic objectives and budget (Operating Expenditure)

SA6- Reconciliation of IDP strategic objectives and budget (Capital Expenditure)

A summary of each department or function SDBIP will be provided showing the information set out in MFMS circular 13, which includes the following:

- Purpose
- Services delivery description
- Resources utilized
- Inputs to detailed sector capital plans, and
- The link between performance measures in the SDBIP and performance contracts.

MFMA allows for SDBIPs to be approved by the major up to 28 days after the approval of the budget.

4. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS.

The municipality's visionary framework is unpacked in to objectives, Key performance Indicators (KPIs) and targets for implementation. These are then broken up into Service Delivery and Budget Implementation Plans (SDBIPs) that reflect the detailed projects, which are then allocated a budget. This concept also includes the Council's performance management system, as the KPIs that are contained in the SDBIPs are monitored and reported on quarterly.

The Council's measureable performance objectives are reflected in Support Table SA 7 and hereby attached.

5. OVERVIEW OF THE BUDGET ASSUMPTIONS

The MTREF model, which enables economic forecasts and the eventual medium term fiscal framework, was compiled under difficult external economic conditions. Budgetary constraints and economic challenges meant the Municipality had to apply cost-saving interventions to ensure an affordable, credible and sustainable budget over the 2010/2011 MTREF.

The biggest challenge this year more so than previous years, is that the Council needs to do more with its existing resources envelope. This was reiterated in the National Treasury Budget circular 51 for the 2010/2011 MTREF.

The Council faces the following challenges in preparing the MTREF:

1. The exceptional high loss in water distribution and the decrease in payment levels have a severe impact on the cash-flow; the Council are therefore not in a position to take up further external loans to finance Capital Expenditure;
2. Lower interest rates earnings due to lower investment balances;
3. The implementation of outstanding parity issues during the 2009/2010 financial year increased the total provision for salaries in allowances in future financial years; The promulgation of the salary wage agreement by the South African Bargaining Council lead to a salary increase of 13% in the 2009/2010 financial year. The average salary increase over the MTREF was calculated using the methodology as prescribed in the regulation. The salary increase for 2010/2011 was based on average CPI for the period 1 February 2009 to 31 January 2010 plus 1, 5%. Therefore a across the board provision was made of 8%.
4. Lower than planned revenue collection ratios are currently achieved, which in turn required a re-assessment of revue collectable for the 2010/2011 and outer financial years;
5. The Council remains highly dependable on National Grants such as the Equitable Share and the Municipal Infrastructure Grant. The Capital Budget is therefore largely finance with National and Provincial Grants;
6. Provision for maintenance in line with the requirements of Grap 17 remains a serious challenge. The Councils revenue base is limited while the aging infrastructure requires more funding to maintain it over its full life span. Serious attention will have to given to this in future financial years;

6. OVERVIEW OF BUDGET FUNDING-SOURCES OF FUNDING AND FUNDING COMPLIENCE

Each source of funding was examined with a view to its optimization within affordability levels. These sources include the following

- Rates, other charges and tariffs
- Savings and efficiencies
- Investments

- Grant allocations
- Contributions and donations
- Sale of assets
- Carry over
- Proposed future revenue sources
- Borrowing

In terms of council's accounting policy and GRAP, estimates for the sale of assets must be credited to the Accumulated surplus.

A growth parameter of 6% was applied to all tariffs as well property rates. The consumption tariffs are indicated in the notices of tariff charges and property rates attached hereto.

All levies, Rates and Service Charges are determined in compliance with:

The local Government; Municipal Property Rates Act, 2004;

The Local Government: Municipal Finance Management Act, 2003;

The Local Government: Municipal Systems Act, 2000.

Table SA 10 Reflects the Funding Measurement on Government Grants and own Revenue while Table SA 18 reflects the alignment with the Division of Revenue Act, 2010 and the Provincial Division of Revenue Act, 2010.

7. NATIONAL TREASURY GUIDANCE

MFMA Circular 51 relates to the budgets for 2010/11 MTREF and provides guidance on:

- National priorities - Doing more with existing resources
- Headline inflation forecasts
- Revising rates
- Funding choices
- Conditional transfers
- Budget and reporting regulations
- Budget process and submissions for 2010/11 MTREF

National treasury recognizes that it will take time to achieve full compliance with both the letter and spirit of the new formats for budgets.

The new formats require substantial changes to the systems, procedures and parameters. Provision has been made in the draft budget to acquire a new accounting system that will accommodate all requirements of GRAP and the new Budget Regulations. However, every effort was made to comply with the new guidelines and formats.

8. EXECUTIVE SUMMARY OF THE 2010/2011 BUDGET PROPOSALS

8.1 Background

The guidance provided in MFMA circular 51 regarding requirements of the MFMA in relation to budget information for consultation and approval was taken into account in compiling the budget. Furthermore the implementation and continuous amendments to GRAP has also contributed to the changes of the presentation. It is clear that the council has a great challenge to address these requirements. Funding has been provided in the budget for the development of a GRAP compliant asset register as well as an asset maintenance system.

8.2 2010/11 Operating Expenditure budget

The operational expenditure budget proposed for 2010/11 is R 268,783 million compared to a current amendment budget of R 248,341 for 2009/10 and represents an 7,6% increase on the 2009/2010 budget.

Increases in the 2010/11 operational budget compared to 2009/10 adjusted budget

	2009/10	2010/11	%	%
	Current	Estimate	Increase/	Compared
	Budget		(Decrease)	to
	R'000	R'000		Total
Expenditure type				Expenditure
Salaries and wages	99,187	109,127	8,08	40,6
General expenses	115,520	12,315	6,20	45,8
Repairs and maintenance	18,378	23,487	21,75	8,7
Capital costs	27,392	26,213	(4,3)	9,8
Less Recharges	12,137	13,108	7,41	(4,9)
Total Expenditure budget	248,340	268,783	7,6	

8.3 Explanation and discussion of major expense type

Salaries and wages

The 2010/11 budget for salaries, wages and allowances for the municipality in total is R 109,127,459 which comprises 40, 6% of the operational expenditure budget.

This total figure also includes councillor's remuneration, but excludes cost of staff employed by the development agency.

The estimates include salary increases of 8% based on the average rate of inflation over the past twelve months. The salary increases are negotiated nationally. Councillor's remuneration is subject to approval thereof by the national minister of Local Government.

The MFMA requires that the budget report contains a detailed analysis of the salaries and allowances of councillors, the Municipal manager and senior management. This information is provided in Supporting Table SA 22.

General Expenses

Most items classified under these two headings have been increased from the 2009/10 adjusted budget by the estimated general rate of inflation, new requests from heads of departments and other factors that became important during the compilation process.

The budget makes provision to fully fund the council's indigent policy and policy with regard to free basic services.

Repairs and Maintenance

It is a requirement in terms of GRAP 17 that assets be maintained to serve their full life span. It must be emphasized that the provision for maintenance is insufficient to comply with this requirement. It also became clear during the IDP consultation process that roads and other infrastructure and facilities constructed during the last nine years already shows signs of deterioration.

Water assets are a subject of major concern. The ageing assets transferred from the Department of Water Affairs in 2006 need serious attention while water losses are increasing due to the lack of proper maintenance and refurbishment.

The Councils limited revenue base is insufficient to deal with this maintenance problems and serious attention should be given to this in future financial plans.

Contribution to Provisions and Working Capital

Council has certain legal obligations to provide for post retirement benefit and bad debts. Expenses related to these provisions are expensed directly against provision.

As part of the turnaround strategy Council should consider a debt incentive policy on a R1 for R1 basis to promote payment for outstanding service debtors. The provision for bad debts can be utilized for this when consumers accept to settle 50% of their outstanding account for 120 days or longer.

A provision of R 5,276 million has been made to provide for working capital as the councils accumulated surplus is not cash funded.

8.4 2010/11 Operational Budget – Revenue

8.4.1 Summary

The total revenue budget proposed for 2010/11 is R 268,955 Million. This is in relation to an adjusted budget of R 248,475 Million in 2009.

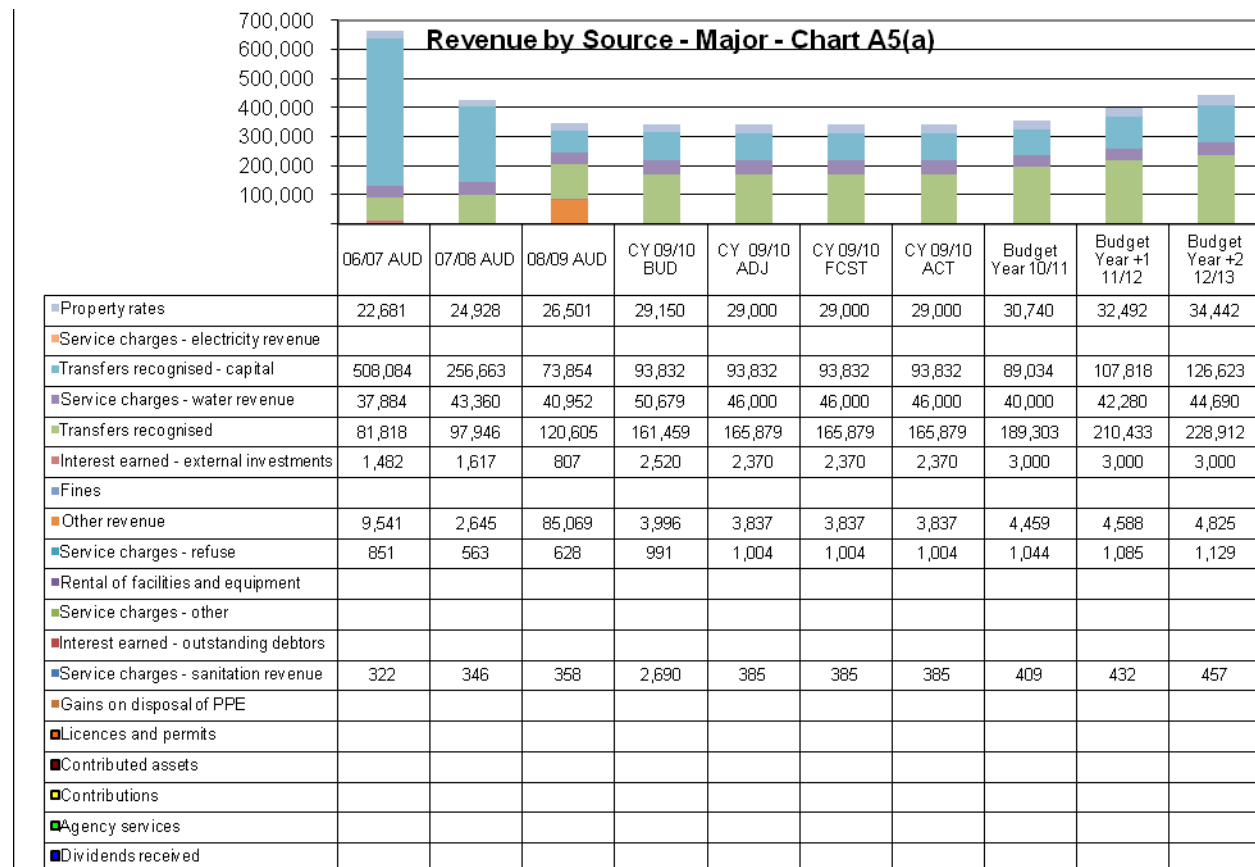
The principle governing tariff increases of 6% for residential rates and consumer services and 6% for business rates and other service fees.

The budgeted revenue is summarized in the table & chart below:

Table 1: The 2010/11 Revenue Budget analysed by major source of revenue

Revenue by Major Source	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	CY 09/10 ACT	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Dividends received										
Agency services										
Contributions										
Contributed assets										
Licenses and permits										
Gains on disposal of PPE										
Service charges - sanitation revenue	322	346	358	2,690	385	385	385	409	432	457
Interest earned - outstanding debtors										
Service charges - other										
Rental of facilities and equipment										
Service charges - refuse	851	563	628	991	1,004	1,004	1,004	1,044	1,085	1,129
Other revenue	9,541	2,645	85,069	3,996	3,837	3,837	3,837	4,459	4,588	4,825
Fines										
Interest earned - external investments	1,482	1,617	807	2,520	2,370	2,370	2,370	3,000	3,000	3,000
Transfers recognised	81,818	97,946	120,605	161,459	165,879	165,879	165,879	189,303	210,433	228,912
Service charges - water revenue	37,884	43,360	40,952	50,679	46,000	46,000	46,000	40,000	42,280	44,690
Transfers recognised - capital	508,084	256,663	73,854	93,832	93,832	93,832	93,832	89,034	107,818	126,623
Service charges - electricity revenue										
Property rates	22,681	24,928	26,501	29,150	29,000	29,000	29,000	30,740	32,492	34,442
<i>revenue check</i>	662,662	428,068	348,774	345,317	342,307	342,307	342,307	357,989	402,128	444,077

Chart 1: The 2010/11 Revenue Budget analysed by major source of revenue



8.4.2 Budget methodology undertaken

A limited zero based budgeting approach was adopted in respect of the operational budget. Existing revenue sources have been investigated and costs of delivery services such as sewerage, refuse and water tariffs where recalculated.

This will further be dealt with under revenue from tariff charges.

Revenue from property rates

A new valuation roll came into effect from July 2008. This resulted in an initial substantially higher valuation on properties in 2009/10.

The average increase on property rates for 2010/11 is set at 6% on all properties.

For residential properties, the following exemptions and rebates are proposed:

- An exemption on the first R 17,000 (Including R 15,000) of the market value of a property assigned in the valuation roll of supplementary valuation roll as determined in clause 17(1)(b) of Municipal Property Rates Act (MPRA 6 of 2004)

- A further residential rebate of 20% on rates levied for residential properties, where a residential completion certificate is issued as determined in clause 10 (b) (ii) of rates policy of MKLM.

The Council's Rates Policy also allows for other rebates to other properties as fully reflected in the Property Rates Policy and notice of Property Rates hereto attached. Land registered in the name of Traditional Authorities is exempted from property rates. This leaves the Council with a very limited rate income as 95% of all land belongs to Traditional Authorities.

Under the new property rates act the 2010/11 budget must show the total rates revenue with the cost of the rebates and exemptions allowed as expenditure. Income foregone is shown as a reduction of rates income.

Revenue from Tariff Services

National Treasury, in Budget Circular 51, paragraph 3.2 stated clearly that water tariffs must be cost reflective.

Due to the deteriorating condition of the Councils water supply assets and the fact that no water loss control systems are in place, water losses cannot be determined. The losses in distribution is excessive with the result that water prices will have to be increased with more than 100% if the losses are to be recovered. Any higher increase than the proposed 6% might lead to consumer resistance and possible further losses in revenue.

The situation required urgent attention and support from the Department of Water Affairs and the Development Bank must be obtained in this regard.

Refuse Removal

The provision of refuse services to all households in the municipality is extremely costly and this service is subsidized through the equitable share as the poverty rate in rural areas is as high as 60%.

This service and the recovery of cost will have to be investigated in future years.

Sewage: An equalization of tariffs for all properties in the urban areas must be considered. This proposed equalization will have to be phased in over a two or three year period, whereby all the mentioned properties will be charged a uniform basic tariff.

The changes to the pricing structure are set out in the detailed tariffs lists.

Property Rates for 2010/11 are attached hereto as Annexure I.

A schedule of the basket of tariffs is attached as Annexure J.

Service charges – other (other Revenue)

This category comprises all the rest of revenue received by the municipality, primary from user charges. The most significant individual items in this category are revenue from building plans, cemetery fees, traffic fines, deeds registration etc.

Interest and Investment Revenue

This comprises primarily the interest revenue received from investing cash available for periods on call and above, interest received on cash held in the council's bank accounts and interest on debtor's arrears.

Expenditure on Government Grants

The MFMA requires that detailed information is given with respect to all grants received by the municipality. The table below also indicates indirect grants such as the Integrated National Electrification Grant and the Housing allocation which grants does not form part of the budget.

The grants and subsidies have been appropriated by national and provincial governments and have been announced via the National and Provincial Division of Revenue Act. See table below:

Project descriptions	2010/11	2011/12	2012/13
National treasury			
Equitable Share	179,214,000	202,003,000	222,245,000
Finance Management Grant	1,000,000	1,250,000	1,500,000
Municipal Systems Improvement grant	1,200,000	1,200,000	1,500,000
Municipal Infrastructure Grant (MIG)	84,856,000	102,056,000	124,000,000
Integrated National Electrified Grant (Eskom)	4,620,000	4,663,000	0
Water Services Operating Subsidy	3,631,000	2,542,000	0
EPWP- Grant	1,037,000	0	0
Total national	275,558,000	313,714,000	349,245,000
Provincial Grant - Library Capital	4,000,000	4,000,000	1,000,000
Housing (Payments Direct to Service Providers)	44,232,000	46,886,000	49,699,000
Public Library Services Grant-Operational	400,000	400,000	400,000
Provincial Water and Sanitation Programme	3,000,000	4,800,000	4,800,000
Total Provincial	55,632,000	56,086,000	55,899,000
Total National and Provincial	331,190,000	369,800,000	405,144,000

Grants from Central Government comprise of the Equitable Share, Financial Management Grant (which funds the costs of the MFMA change project and the appointment of financial interns), MSIG (systems improvement), and MIG (Infrastructure development) and included in the Equitable Share grant is an amount of R 3,334,000 for a contribution towards councillor's remuneration.

Grants received from province include subsidizing of public libraries (provincial function) and the provision for a new library in Mogwase as well as the Provincial Water and sanitation Programme.

Of the total amount R 278,338 of government grants directly received, an amount of R 185,445 million relates to direct operating revenue which constitutes 66,38% of total revenue. The Municipality is therefore highly dependent on government grants to sustain its operations.

Table SA 19 hereto attached reflects the detail expenditure on grant allocations.

8.5 Key Risk Areas in the 2010/11 Operational budget

The following are the key risk areas in the budget which will need to be closely monitored over the course of the 2010/11 financial year:

- Changes in seasonal weather patterns from the norm can decrease/increase the consumption of water and might place the achievement of the revenue budget at risk.
- No appropriation for a contingency budget as a zero based budget methodology was applied
- The 2010 Soccer World Cup is on the doorstep and it is hoped that the Moses Kotane area benefit economically from this.
- The full impact of the implementation of GRAP and the new accounting standards that arose since its inception from 1 July 2004 and further revisions of accounting standards and issuing of further new accounting standards by the accounting standards board has already had an impact on the operational budget. The issue that stands out in this regard is the effect of depreciation on the operational bottom line.
- The increase in the cost of chemicals used for the treatment of waste water and for purification of potable water over the past two years still pose a threat.
- The interruption in water supply in various areas and the cost of emergency supply with the support of external service providers to transport water to certain areas will place the expenditure budget at risk.

9. 2010/11 CAPITAL BUDGET AND CAPITAL EXPENDITURE DETAILS

a. Background of developmental needs

- The municipality has a backlog both in investing in new and upgrading of existing bulk infrastructure that has been partially addressed since the previous and now 2010/11 and future capital budgets
- The economy is recovering from a recession at a slow pace and borrowing is difficult.
- The Capital Budget focus on the backlogs in service delivery and to meet the goals set by National Government by 2014.

Further details regarding the funding of the capital budget is given in paragraph 5.2

b. Summary

The proposed capital budget for 2010/11 is R 115,634 Million. This is a decrease of 0, 02% from the 2009/10 adjusted budget of R 118,818 Million.

The following table & chart represent summaries of the capital votes and financing sources:

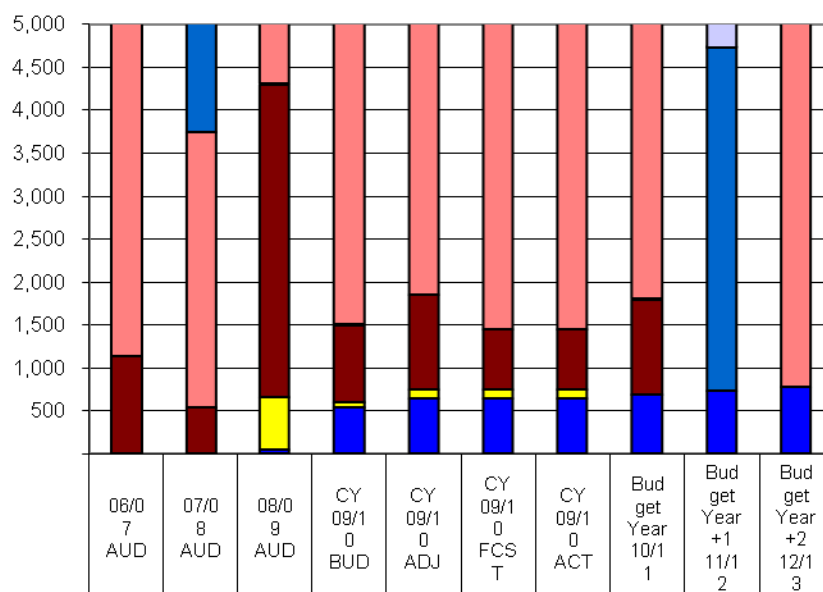
Table 2: Summary of 2010/11 capital votes (Services/GFS classifications)

Capital Expenditure by Standard Classification	06/07 AUD	07/08 AUD	08/09 AUD	CY 09/10 BUD	CY 09/10 ADJ	CY 09/10 FCST	CY 09/10 ACT	Budget Year 10/11	Budget Year +1 11/12	Budget Year +2 12/13
Corporate Services		17	58	550	650	650	650	700	740	782
Environmental Protection										
Public Safety			613	50	100	100	100			
Executive & Council	1,139	526	3,631	900	1,100	700	700	1,100		
Health										
Sport and Recreation	4,639	3,200	1,582	4,264	4,456	4,456	4,456	9,036		13,000
Community & Social Services	5,881	236,648	10,117	17,054	16,804	8,104	8,104	13,200	4,000	1,000
Waste Management		856	1,947	11,000	8,600	8,600	8,600	6,099	750	
Budget & Treasury Office	164	258	462							
Waste Water Management	734	144		850	700	700	700	8,330	84,644	70,860
Road Transport	61,834	17,517	35,568	20,504	20,363	20,363	20,363	11,040	1,310	24,000
Electricity	6,042	1,337	15,320	2,037	2,037	2,037	2,037			12,963
Water	437,040	7,522	33,778	60,510	64,008	64,008	64,008	65,629	17,114	4,800
Housing										
Planning & Development										
<i>check</i>	517,473	268,025	103,076	117,719	118,818	109,718	109,718	115,634	108,558	127,405

Chart 2: Summary of 2010/11 capital votes (Services/GFS classifications)

Rm

Capital expenditure by Standard Classification - Chart A11



■ Planning & Development										
■ Housing										
■ Water	437,04	7,522	33,778	60,510	64,008	64,008	64,008	65,629	17,114	4,800
■ Electricity	6,042	1,337	15,320	2,037	2,037	2,037	2,037			12,963
■ Road Transport	61,834	17,517	35,568	20,504	20,363	20,363	20,363	11,040	1,310	24,000
■ Waste Water Management	734	144		850	700	700	700	8,330	84,644	70,860
■ Budget & Treasury Office	164	258	462							
■ Waste Management		856	1,947	11,000	8,600	8,600	8,600	6,099	750	
■ Community & Social Services	5,881	236,64	10,117	17,054	16,804	8,104	8,104	13,700	4,000	1,000
■ Sport and Recreation	4,639	3,200	1,582	4,264	4,456	4,456	4,456	9,036		13,000
■ Health										
■ Executive & Council	1,139	526	3,631	900	1,100	700	700	1,100		
■ Public Safety			613	50	100	100	100			
■ Environmental Protection										
■ Corporate Services		17	58	550	650	650	650	700	740	782

Chart 3: Financing of the 2010/11 Capital Budget

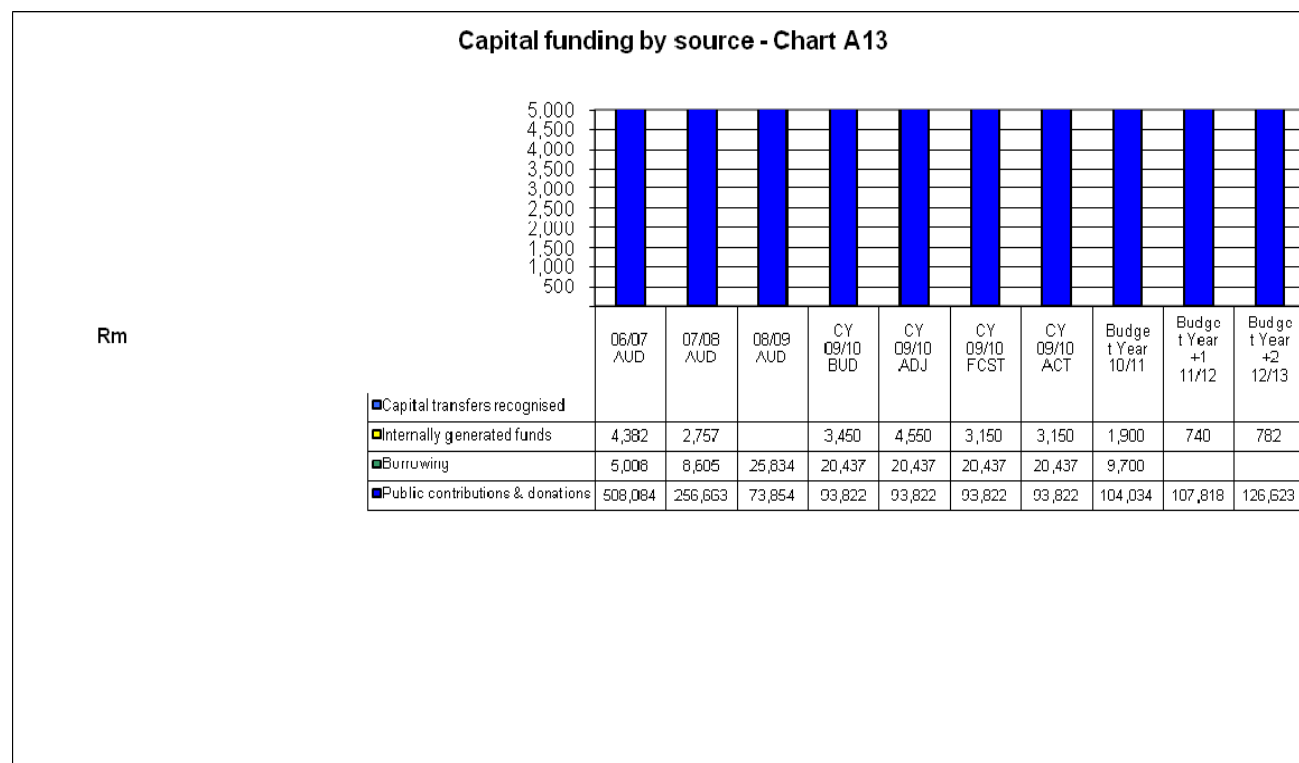


Table 4: Summary of 2010/11 Capital per Service and funding

SERVICE	CAPITAL EXPENDITURE	COUNCIL FUNDED	EXTERNAL FUNDED	TOTAL
Information & Communication Technology		700,000		700,000
Property Services	13,673,000	-	13,673,000	13,673,000
Sport & Recreation	9,036,204	100,000	8,963,204	9,036,204
Housing				
Local Economic Development				
Roads	11,040,174	-	11,040,174	11,040,174
Electricity				
Water	65,628,861	-	65,628,861	65,628,861
Sewerage	8,330,000	-	8,330,000	8,330,000
Storm water				
Waste Management	6,099,235	-	6,099,235	6,099,235
Vehicles	600,000	600,000	-	600,000
Minor Assets	500,000	500,000	-	500,000
Total	115,634,474	1,900,000	113,734,474	115,634,474

Funding of Capital Budget

The total Capital Budget proposed for 2010/11 is R 115 634 474. The Capital Budget will predominately be financed with the MIG grant to the amount of R 97 034 474. The library in Mogwase will be funded with a Provincial Capital Grant of R 9, 000, 00.00 over a three year period while smaller items will be funded with surplus cash to the amount of R 1,900,000.

The cost to the operational budget of financing the capital budget is included in the medium Term Financial Forecast.

These proposals are included in the operational and capital budgets.

10. 2010/11 FORECAST CASH FLOW POSITION

A cash flow forecast for 2010/11 is represented in the table below:

Table 5: Estimates of cash flow for 2010/2011

Figures in R'000s	Cash Flow
Estimated Balance C/Fwd from 2009/2010	6,924,000
<u>Add:</u>	
Revenue from rates and service charges	72,193,000
Other revenue	7,459,000
Government and other Grants and Receipts	293,337,000
External loan receipts	9,700,000
<u>Less:</u>	
Salaries, wages and allowances	109,127,000
General expense	108,055,000
Maintenance expenses	23,487,000
Interest & Redemption on external loans	26,213,000
Capital expenditure	115,634,000
TOTAL ESTIMATED BALANCE END OF 2010/11	7,097,000

11. THE MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

The Council's financial objective over the medium term is for increases in property rates, tariffs for user charges to be affordable and sustainable by being in line with general price inflation. This objective is a key factor in budget decision-making.

It is likely, however, that tariffs for particular services may need to rise above inflation as significant infrastructure works are undertaken for their services in question. Such rises in the tariffs will be needed to fund the resultant operational budget costs of the capital investments.

Another financing source of the capital budget is the grants from other spheres of government. The Municipality needs to increase its ability to bid for all relevant grant funding opportunities. The latter will have a favourable impact on the MTREF and will most certainly be of great help to Council to render sustainable services at affordable user charges and property rates.

12. WAY FORWARD-STRATEGIC PLANNING OVER THE MEDIUM TERM

The Council's objective to keep rates and tariff increases affordable and sustainable by limiting the increases will require some difficult budget decisions, such as:

- All services will need to be reviewed in order to assess whether the service is "core business" or whether the service is either low priority or non-statutory.
- The service levels that the Municipality will work to and can afford will need to be agreed by Council and the community and be published.
- Alternative ways of providing services need to be actively investigated. Further Business Process Re-engineering reviews should be undertaken to identify both more efficient and cost-effective ways of delivering services.

13. OVERVIEW OF BUDGET RELATED POLICIES

13.1 Property Rates Policy

The Property Rates policy has been revised to align it with the recent amendments to the Municipal Property Rates Regulations, 2009. This amendment sets new ratios to be applied between Residential properties, Agricultural properties, Public service infrastructure, and Public benefit organisations properties.

13.2 Approval of Budgets

The policy has been revised to provide for Virement within municipal Votes.

13.3 Credit Control and Debt Collection

No revision is recommended.

13.4 Indigent Support

The policy has been revised to increase the threshold for indigent household to R 1600.00 per month.

13.5 Cash Management and Investment Policy

No amendments proposed.

13.6 Fraud and Corruption Policy

No amendments proposed.

13.7 Internal Control and Proceedings

No amendments proposed.

13.8 Fixed asset Management Policy

No amendments proposed

13.9 Draft Funding and Reserves Policy

The policy sets out to ensure that the annual budget of Moses Kotane Municipality is fully funded and that all funds and reserves are maintained at the required level to avoid future year unfunded liabilities. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework.

The policy shall apply to all the relevant parties within the Moses Kotane Municipality that are involved throughout the budget process and financial management disciplines.

The policies are available at the Offices of the Municipal Manager, Civic Centre, Station Street, Mogwase and will be published on the municipal website after approval by Council on 31 May 2010. Website address: www.moseskotane.gov.za

14. COMPLIANCE WITH THE MFMA IMPLEMENTATION REQUIREMENTS

MFMA implementation requirements have been largely adhered to through the following activities:

- **Budget and Treasury Office**

A Budget and Treasury Office, although not yet fully staffed, has been established in accordance with the MFMA.

- **Budgeting**

The annual budget is prepared in accordance with the requirements prescribed by the National Treasury and the MFMA.

- **Financial Reporting**

Every effort is made to comply with the reporting requirements.

- **Internship Program**

The municipality in participating in the Municipal Finance Management Intern program, has employed a number of interns in various sections in the Budget and Treasury Office. Four interns were appointed in 2006 and three completed their internship and were appointed in permanent positions in the BTO. Five new interns were appointed as from 1 December 2009.

15. DEPRECIATION CHARGES

It is a requirement from GRAP and the new Budget Regulations that depreciation be charged as expenditure in the operating budget with the result that the budgeted cash surplus of R 172,000 is changed to a non-cash deficit of R 70,884,000. It is expected from municipalities to develop their revenue base to finance the deficit. This will be an exceptional challenge in future years as the potential to increase revenue in rural municipalities are very limited.

16. MOSES KOTANE DEVELOPMENT AGENCY

The Moses Kotane Development Agency was established in February 2005. The CEO and a limited number of staff were appointed. The Board Members assumed duties in 2005 and their term of office has expired in 2009. No new Board Members had as yet been appointed as the Council at this point in time together with the Administrator is investigating the future viability of the Agency. Although a budget has been prepared and consolidated with the Council's budget, no measurable performance indicators had been received. As soon as the investigation has been completed National and Provincial Treasury will be informed. The budget of the agency was prepared for 2010-2011 only. Estimates for the outer years will be prepared after the final decision of Council is available on the future of this agency.

17. CONCLUSION

The participation of the community and other stakeholders during the budget process, which started way back in August 2009, was imperative to the finalization of a successful budget. MKLM endeavours to deliver on a sustainable and affordable budget, while creating a better life for all. After its acceptance, the final budget will be presented to the national and provincial governments, be available at all times for the community and will be the tool for the measurement of success during the course of the 2010/11 financial year.